

# AVOIDING EMOTIONAL PITFALLS



TRUXTON TRUST  
A PRIVATE BANK



**Andrew "Drew" J. Mallory, CFA**  
Managing Director  
Wealth Management Services

Our financial well-being - few subjects can more profoundly affect our lives and the lives of our loved ones. Indeed, achieving and maintaining financial well-being for our families is why we work, save, educate our children, and why we invest and risk our hard-earned dollars in assets expected to yield positive economic benefits. Because safety and security are among our most primal human needs, our attitude towards our financial well-being and decisions are inherently emotional. Humans, by their very nature, appear to be psychologically ill-equipped to make entirely rational financial decisions under all circumstances. Unfortunately, emotionally-driven financial decisions can be costly and easily derail otherwise well laid plans. Making matters worse, the opportunity to make emotion-based decisions is the highest in times of duress, often when the stakes are the highest. Fortunately, there are steps we can take to mitigate our natural propensity to make emotional decisions. The path to better managing our emotions begins with defining what is important to us, focusing on what is actually within our power to control, and having a trusted and capable partner to lean on as life happens.

What is truly important to us and our loved ones? The question seems simple enough. In reality, defining what is truly important requires a great deal of personal introspection, analysis, and long-term perspective. Often, we view goals individually and focus most of our energy on highly anticipated events like the sale of a business, the funding of a child's college education or wedding, or ensuring that we meet our accustomed standard of living during our retirement years. Other important goals include providing for our loved ones in an adequate, efficient, and minimally disruptive manner should we become incapacitated and after we pass away. These goals are strategic in nature, meaning they are critical and typically long-term in nature. Thoughtful strategic goals help us discover and articulate what is truly important to us and also uncover hidden or underappreciated risks. Poor strategic goals are the result of failing to plan or developing plans devoid of comprehensive perspective and purposeful intention. Such plans often work against us as they serve to sow the seeds of uncertainty, anxiety, and fear which greatly increase the likelihood of a costly emotional misstep. Without comprehensive perspective and the comfort of intentional strategic planning, we remain within an elevated risk of making emotional decisions and experiencing their unintended and all too often unfortunate outcomes.

A sound, comprehensive wealth management strategy aligns our goals with what is truly important, and it effectively organizes the resources and tools within our disposal into actionable steps. Separating what we control from what we do not control will help manage our emotions as we encounter periods of turbulence. Thankfully, we control how much investment risk we tolerate, the types of investments we own, our behavior in times of stress and elevated volatility, how much and when we save and spend, the timing and magnitude of certain taxes, the utilization of various tax-advantaged accounts, and how our estates and trusts will be administered. Yet despite our best efforts, there are external factors beyond our control that continue to exact a psychological toll on us. Perhaps in no other area are the negative impacts of emotionally-driven behavior more apparent than in the long-term investment results of the average investor. Why does the average investor realize returns far below market averages, impairing their ability to create and sustain wealth? It is because average investors succumb to their worst vulnerabilities related to the emotions of fear and greed at the most inopportune times. The average investor fails to adhere to sensible investment plans centered on the principles of long-term investing, diversification, and the power of compounding returns. The average investor also fails to set reasonable risk and return expectations but rather fantasizes about building wealth quickly and in spectacular fashion by timing the market just right or owning the day's hottest new investment. Conversely, they agonize about short-term unrealized losses and plan their escape from the next financial meltdown that is almost surely lurking around the corner. Unchecked fear and greed lead to poor decisions such as increasing risk when conditions feel and look ideal (but assets are actually overvalued) or reducing risk

following market pull backs when conditions look dire (but assets actually represent compelling value). While we cannot control sensational headlines, geopolitical turmoil, the stock market's lightning fast gyrations, or random informational tidbits from social media, we continue to maintain meaningful control over a great deal in our financial lives. Just like with our behavior relating to investments, if left unchecked, our emotions can steer us towards other poor wealth management decisions increasing the likelihood of negative personal and financial outcomes.

The comprehensive wealth management process yields both desired goals and a realistic path forward. This process gives us confidence to advance our plans despite what real or perceived obstacles may materialize. As human beings, we remain susceptible to a rollercoaster of emotions emanating from changes in our personal circumstances and the headlines of the day. Employing a trusted advisory team allows us to better handle the nuanced trade-offs and interplay between managing desired family outcomes, expected investment risks and returns, cash flow needs, tax minimization, and estate planning strategies. We also benefit by having an advisory partner adept at counseling and managing through life's most challenging and emotional periods. It is in these most trying times that we find ourselves most exposed to emotional decisions that can significantly impair our financial well-being. Despite the unknown variables we will encounter in the future, well-articulated strategic goals, strong command of what we control, and reassuring guidance from our trusted advisory team will better position us to achieve our strategic goals by avoiding emotional missteps. Additionally, we will benefit from a more rewarding and enjoyable wealth management experience as we move forward and through the seasons of life. ■

CALL US

615-515-1700

VISIT US

[TRUXTONTRUST.COM](http://TRUXTONTRUST.COM)

JOIN OUR EMAIL LIST

[SUBSCRIBE](#)